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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER

8-083335

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

RECD S.E.C.

MAR 1 - 2005

REPORT FOR THE PERIOD BEGINNING 01/01/04 AND ENDING 12/31/04
MM/DD/YY MM/DD/YY

1086

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: FOLGER NOLAN FLEMING DOUGLAS INCORPORATED

OFFICIAL USE ONLY

FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

725 FIFTEENTH STREET, N.W.

(No. and Street)

WASHINGTON

DC

20005

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

RICHARD FOSTER

(202) - 783-5249

(Area Code-Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

WILLIAM BATDORF & COMPANY, P.C.

(Name- if individual, state last, first, middle name)

PROCESSED

MAR 23 2005

THOMSON
FINANCIAL

1000 CONNECTICUT AVENUE, NW, SUITE 801, WASHINGTON, DC 20036

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)2.

Sec. 1410 (06-02)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

3/21/05
SS

OATH OR AFFIRMATION

We, RICHARD FOSTER AND LEE M. FOLGER, swear (or affirm) that, to the best of our knowledge and belief that the accompanying financial statements and supporting schedules pertaining to the firm of FOLGER NOLAN FLEMING DOUGLAS INCORPORATED as of December 31, 2004, are true and correct. We further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of customer, except as follows:

Richard Foster

Signature

EXECUTIVE VICE PRESIDENT/TREASURER

Title

Lee M. Folger

Signature

Jodi L. B. Reedy
Notary Public, District of Columbia
My Commission Expires 8-31-2009

CHAIRMAN OF THE BOARD

Title

District of Columbia : SS

Subscribed and Sworn to before me, in my presence,
this 28th day of February, 2005

Jodi L. B. Reedy
Notary Public, D.C.

My commission expires 8/31/2009

This report** contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Cash Flows.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent auditor's report on internal accounting control.

** For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

FOLGER NOLAN FLEMING DOUGLAS
INCORPORATED

STATEMENT OF FINANCIAL CONDITION AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2004

FOLGER NOLAN FLEMING DOUGLAS INCORPORATED

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2004

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WILLIAM BATDORF & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
1000 CONNECTICUT AVENUE, N.W., SUITE 801
WASHINGTON, DC 20036

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Folger Nolan Fleming Douglas Incorporated
Washington, DC

We have audited the accompanying statement of financial condition of Folger Nolan Fleming Douglas Incorporated, at December 31, 2004. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of Folger Nolan Fleming Douglas Incorporated, at December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

William Batdorf & Company, P.C.

February 24, 2005

FOLGER NOLAN FLEMING DOUGLAS INCORPORATED

STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2004

ASSETS

Cash	\$ 445,381
Receivable from Clearing Firm	7,639,578
Receivables - Other	65,378
Securities Owned, at Market Value	36,178,170
Memberships in Exchanges	75,976
Furniture, Equipment and Leasehold Improvements, at cost, less accumulated depreciation and amortization of \$2,219,535	482,542
Other Assets	<u>521,533</u>
Total Assets	\$ <u>45,408,558</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities	
Accounts payable and accrued expenses	\$ 619,264
Income Taxes Payable - Current	48,947
Deferred Tax Liability	<u>13,248,755</u>
Total Liabilities	<u>13,916,966</u>
Stockholders' Equity	
Preferred Stock (4% cumulative non-voting, \$100 par value, 100 shares authorized, 75 shares issued and outstanding)	7,500
Common Stock Class A (\$100 par value, 10,000 shares authorized, 4,517 shares issued and outstanding)	451,700
Common Stock Class B (non-voting, \$100 par value, 1,000 shares authorized, 568 shares issued and outstanding)	56,800
Retained Earnings	<u>30,975,592</u>
Total Stockholders' Equity	<u>31,491,592</u>
Total Liabilities and Stockholders' Equity	\$ <u>45,408,558</u>

See accompanying Notes to Financial Statements.

FOLGER NOLAN FLEMING DOUGLAS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Folger Nolan Fleming Douglas Incorporated (the "Corporation") is a registered broker dealer providing securities brokerage services primarily in the Washington, D.C., Baltimore, Maryland and Cambridge, Maryland areas. The Corporation is registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers, Inc. The Corporation is also registered as an investment advisor under the Investment Advisors Act of 1940.

Securities Transactions

Securities transactions are recorded on a trade date basis.

Receivable from clearing firm is comprised of credit balances in accounts held for the benefit of the Corporation.

Securities Owned

Securities owned by the Corporation are valued at market with the resultant unrealized gain or loss reflected in the statement of income. Dividends are recorded as income when received, which does not materially differ from the accrual basis.

Securities owned at December 31, 2004 consisted of common stocks (99%) and corporate, government and municipal bonds (1%).

Property and Equipment

Depreciation and amortization of office equipment and leasehold improvements is recorded on a straight-line basis over the estimated useful lives of such assets.

Income Taxes

The Corporation accounts for income taxes under the liability method, whereby deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - OTHER REGULATORY REQUIREMENTS

The Corporation is subject to the provisions of Rule 15c3-3 of the Securities and Exchange Commission. However, the Corporation operates pursuant to the exemptive provisions of Paragraph (k)(2)(ii) of Rule 15c3-3.

NOTE 3 - BANK LOANS

The Corporation maintains a line of credit, which provides for borrowing up to \$2,000,000. This line of credit expires in April 2005 and there was no outstanding balance under this agreement as of December 31, 2004.

NOTE 4 - PROFIT-SHARING PLAN

The Corporation provides retirement benefits for substantially all employees through a defined-contribution profit-sharing plan. Funding is at the discretion of the Corporation. There was no contribution made for 2004.

NOTE 5 - PREFERRED STOCK

The preferred stock is redeemable at 100% of par value.

FOLGER NOLAN FLEMING DOUGLAS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

NOTE 6 - INCOME TAXES

The provision (benefit) for income taxes consists of the following at December 31, 2004:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ 79,596	\$ 1,412,746	\$ 1,492,342
State	<u>42,492</u>	<u>460,391</u>	<u>502,883</u>
Total	\$ <u>122,088</u>	\$ <u>1,873,137</u>	<u>1,995,225</u>

The primary difference between income taxes at the statutory rate and the effective rate are the dividends received deduction, municipal interest and state taxes net of federal benefit.

The principal temporary difference between income before taxes for financial reporting purposes and for income tax purposes relates to net unrealized appreciation on investment securities which is included in revenues in the statement of operations but is not reportable for tax purposes until realized.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

The Corporation has entered into operating leases for real estate and computer software. Total rental expense under such lease agreements amounted to \$416,676 for the year ended December 31, 2004. Included in rental expenses is \$285,923 for rental of office space owned by the family of a principal of the Corporation. Certain leases contain provisions for escalations.

The aggregate minimum annual rental commitments at December 31 for leases of one year or more are as follows:

2005	\$ 282,967
2006	274,167
2007	274,167
2008	<u>228,473</u>
	\$ <u>1,059,774</u>

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

NOTE 8 - NET CAPITAL REQUIREMENTS

The Corporation is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2004, the Corporation had net capital and net capital requirements computed under these provisions as follows:

Net Capital	\$ 26,325,371
Net Capital Requirement	\$ 250,000
Ratio of Aggregate Indebtedness to Net Capital	0.03 to 1

NOTE 9 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Corporation's customers' accounts are carried on a fully disclosed basis with another broker dealer, which reduces, but does not eliminate, its risks associated with customer activities. In the event a customer is unable to fulfill its contracted obligations with the carrying broker dealer, the Corporation may be at risk to fulfill the customer's obligations.

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

Cash and cash equivalents consisted of investments in money market mutual funds and cash on deposit with established federally insured financial institutions. Total cash on deposit at various times during the year exceeded the federal deposit insurance limits. The Corporation has never experienced any losses in these accounts and does not believe that it is exposed to any significant concentration of credit risk.

WILLIAM BATDORF & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
1000 CONNECTICUT AVENUE, N.W., SUITE 801
WASHINGTON, DC 20036

TELEPHONE
(202) 331-1040
FACSIMILE
(202) 659-1293

**SUPPLEMENTARY REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON INTERNAL ACCOUNTING CONTROL**

To the Board of Directors
Folger Nolan Fleming Douglas Incorporated
Washington, DC

Gentlemen:

In planning and performing our audit of the financial statements of Folger Nolan Fleming Douglas Incorporated for the year ended December 31, 2004, we considered its internal control structure, including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission(SEC) we made a study of the practices and procedures followed by The Company including test of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by rule 17-a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management structure reasonable, but not absolute, assurance that assets for which the Company has

responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are recorded in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2004 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

William Batdorf & Company, P.C.

February 24, 2005